



BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

FILED

11-30-07
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In the Matter of the Application of)

CALIFORNIA WATER SERVICE COMPANY (U 60 W),)
a corporation,)

for an order authorizing it to increase rates charged for)
water service in its Chico District by \$6,380,400 or 49.1%)
in July 2008, \$1,651,100 or 8.5% in July 2009, and by)
\$1,651,100 or 7.9% in July 2010;)
in its East Los Angeles District by \$7,193,200 or 36.5%)
in July 2008, \$2,034,800 or 7.6% in July 2009, and by)
\$2,034,800 or 7.0% in July 2010;)
in its Livermore District by \$3,960,900 or 31.2% in July)
2008, \$942,200 or 5.6% in July 2009, and by \$942,200)
or 5.4% in July 2010;)
in its Los Altos-Suburban District by \$5,172,500 or 30.5%)
in July 2008, \$1,189,100 or 5.4% in July 2009, and by)
\$1,189,100 or 5.1% in July 2010;)
in its Mid-Peninsula District by \$5,435,100 or 23.7% in)
July 2008, \$1,634,200 or 5.8% in July 2009, and by)
\$1,634,200 or 5.5% in July 2010;)
in its Salinas District by \$5,119,700 or 29.8% in July)
2008, \$3,636,900 or 16.3% in July 2009, and by)
\$2,271,300 or 8.7% in July 2010;)
in its Stockton District by \$7,474,600 or 29.0% in July)
2008, \$1,422,400 or 4.3% in July 2009, and by \$1,422,400)
or 4.1% in July 2010;)
and in its Visalia District by \$3,651,907 or 28.4% in July)
2008, \$3,546,440 or 21.3% in July 2009, and by \$3,620,482)
or 17.6% in July 2010;)
_____)

Application No. 07-07-001
Filed July 3, 2007

RESPONSE TO ALJ THOMAS' NOVEMBER 2, 2007 RULING

Thomas F. Smegal
Manager of Rates
California Water Service Company
1720 North First Street
San Jose, CA 95112

Representative of Applicant

November 30, 2007

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

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Application 07-07-001
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RESPONSE TO ALJ THOMAS' NOVEMBER 2, 2007 RULING

California Water Service includes its response to ALJ Thomas' November 2 ruling as Appendix A. Please note that Cal Water is only filing this response itself. All reference material is being served on the parties to the Proceeding.

/s/ Thomas F. Smegal
Thomas F. Smegal
Representative of California
Water Service Company

November 30, 2007
Date

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San Jose CA, 95112
408-367-8200
tsmegal@calwater.com

Appendix A
California Water Service Co.

Recipient:	California Water Service Company		
CWS Data Request No.:	Response to ALJ Thomas' 11-2-07 Ruling		
CWS File Name:	Data Request SRT-4 Response		
Request Date:	November 2, 2007	CWS Rates Manager:	Tom Smegal
Due Date:	December 2, 2007	CWS RM Phone No.:	408-367-8219

Q 1.i.a) Formal Application – Workpapers – Table 6-A. Explain the negative dollar figures under “admin Chgs Trsf. A/C 8120” (appears in two places)

Response

Administrative charges (account 812000) are the portion of the gross revenues earned on unregulated services that have been apportioned to the ratepayers as adopted for water utilities in D. 00-07-018 (allocation of revenue from non-tariffed projects between ratepayers and shareholders).

Q 1.i.b) Formal Application – Workpapers – Table 6-A1a. Explain the item entitled “Moving Cost – Employee.”

Response

These were costs incurred when an employee transferred out of another Cal Water District to accept a position in the Los Altos District. The charges were made in accordance with Cal Water’s procedures and policies. Please see the attached document for a copy of the Company manual.

Q 1.ii.a.1) Project Justifications – Table of Contents: Page 4. In another response, you indicated you are replacing several types of vehicles based on California Air Resources Board (CARB) rules. Here, you refer to forklift retirement. Explain what other vehicles you are retiring and give more background on the CARB regulations at issue.

Response

All Cal Water vehicles that are diesel-powered must comply with Title 13, Section 2022: Diesel Particulate Matter Control Measures for Municipality or Utility On-Road Heavy Duty Diesel Fuel Engines. The regulations apply to any municipality or utility that owns, leases, or operates a 1960 to 2006 on-road diesel-fueled heavy duty vehicle with a manufacturer's gross vehicle weight rating greater than 14,000 pounds. The vehicles must either be retired and replaced or retrofitted to reduce the particulate emissions.

Q 1.ii.b) Tab 1. The first page seems to have numbers crossed out. Provide the page with the correct dollar figures. Further, page 2 states that the anticipated completion date for the project (Summerhill 12" Main Replacement) is May 2007 but on page 3 state the job has been completed. State when the job was completed.

Response

Included with the overall response is a copy of the project justification book for the Los Altos District that contains a clean copy of Tab 1. The main replacement project was completed in July of 2007.

Q 1.ii.c) Tab 5. If you have not already done so, furnish the Luhdorff & Scalamani water supply and facility master plans (2003 and 2005). Further, is Project 00017216, included under this tab, part of project 16172, also included, or are they separate projects?

Response

A copy of the 2003 Luhdorff and Scalmanini Water Supply and Facility Master Plan (WSFMP) for Los Altos-Suburban was supplied in the response to ALJ Thomas' 9-25-07 Ruling. There was a 2005 Luhdorff and Scalmanini WSFMP for the Salinas District, which was also provided in the response. Coincidentally, it was referred to in Tab 5 of the Salinas justifications. Perhaps that is the source of any confusion.

It appears as though the justification book provided to you contained some incorrect information. Tab 5 should have only addressed Cal Water Project 16172. Although Projects 16172 and 17216 are indirectly related (they both improve the water supply to the district) and generally referred to in the WSFMP, these two projects are separate and do not rely on one another to provide improvements to the Los Altos system.

Project 17216 documents should have been preceded by a tab. When the project justification book was revised from the May 1 filing, the tabs and corresponding table of contents were apparently revised incorrectly. In the response to 1.ii.b., it was noted that a copy of the project justification book is included in the overall response. Since the justification for PID 17216 was inadvertently not included in the project justification book, a copy of it is included as a separate document in this response as well.

Q 1.ii.d) Tab 13 - Did you install the Priority 1 security measures? (This justification is only for Priority 2 measures)

Response

It appears as though the justification book provided to you contained some incorrect information. The information placed after Tab 13 in your book – PID 17833 – should have been after Tab 14. See response to question 1.ii.e.

As to the Priority 1 security measures, they are budgeted to be done in 2008, and are discussed under Tab 6 – PID 17820. The justification for PID 17820 is in the Los Altos Suburban Project Justifications book included with the overall response.

Q 1.ii.e) Mid-Peninsula District – Project Justifications: Tab 14. There are no materials here. Was something omitted?

Response

The missing materials noted in question 1.ii.d. actually refer to PID 17259, a tank painting/coating project. The documents justifying this PID are contained in Tab 13 in the project justification book included with the overall response.

Q 1.ii.f) Mid-Peninsula District – Project Justifications: Tab 15. Is an 8-year useful life for a VAC truck still valid? Has the Commission ever weighed in on the appropriate useful life for such a vehicle? Explain.

Response

The Commission has never ruled on the appropriate replacement policy for a heavy specialized-use vehicle such as this. Cal Water is requesting to replace this equipment in conformance to its existing vehicle policy. Cal Water does not have long experience with this type of vehicle and the primary motivation for replacement is to maintain a very high level of service.

The vac truck is an essential piece of equipment for Cal Water's operation in the Los Altos District. It allows Cal Water to do 'soft' excavations that greatly reduce liability and safety issues for employees. Soft excavations refer to a high-pressure water and vacuum excavation method. It greatly reduces the chance of damaging facilities while excavating. Excavations can be completed in much less time than it takes conventional hard excavation methods that involve the use of air compressor and jackhammer.

Q 1.iii.a) Page 18. Where is “Tab 16 of the General Report”? My copy does not have tabs.

Response

A hard copy of the General Report (including tabs) will be forwarded to your office.

Q 1.iii.b) Salinas - Page 28. Itemize the “non-specifics” for the 2008 Capital Budget.

Response

Non-Specifics cannot be itemized for 2008 other than the general categories noted in the capital budgets. Non-specifics are based upon averages of historical expenditures over the previous ten years, inflated to 2007 dollars, for emergency or unforeseen projects that arise during any one year. This is shown for the Los Altos District in their Formal Application Workpapers, Tab T8 A/B, toward the end of the tab in a sheet titled “California Water Service Company, Los Altos-Suburban District, Non-Specific Capital Budget by Category.”

Q 1.iii.c) Page 38 - Is it correct that you are not seeking to recover an under-collected balance that is more than 3 years old? If not, explain.

Response

That is correct. Please see Cal Water's response to question 5.ii.(c) of your September 25 ruling.

Q 2.i.a) WP 5-B4d. Is Bayshore part of the Mid-Peninsula district? If not, why is Bayshore “allocated to Mid-Peninsula district”? Is this allocation for less than 100%? Explain.

Response

The Mid-Peninsula and South San Francisco Districts make up the Bayshore District. The Bayshore district is an administrative organization that contains the two ratemaking districts. All common costs are charged to the Bayshore District. At the end of every month, Accounting books an entry to proportionally allocate common expenses between the South San Francisco and Mid-Peninsula operations.

Q 2.ii.a) Mid-Peninsula Project Justification – Tab 4, PID 16043. Are there any records of leaks (Compare this job with job 6, where 21 leaks are noted.)

Response

The available leak records for the project in Tab 4 are included as attachment SRT-4 no. 2.ii.a attachment 1.

Q 2.ii.b) Mid-Peninsula Project Justification – Tab 10 – Was this project funded previously? Detail indicates that Cal Water completed a design for it in 2004.

Response

This physical project was previously proposed in the 2004 GRC under PID 8638. Cal Water and DRA (ORA) reached a settlement allowing \$90,000 in rate base for this project in 2004. Cal Water completed design on the project for approximately 22,309 in 2004. However, due to concerns by a neighbor, Cal Water has revised the project and its current estimated cost exceeds the amount in both Cal Water's original budget and the approved settlement. Thus Cal Water has rebudgeted the project. Because the conditional use permit application was not signed by the landowner, construction could not start as originally scheduled and the project was delayed. The new PID 15999 includes demolition and construction work for this station and includes previous design cost transferred from PID 8638.

Q 2.ii.c) Tab 20 - Did you install the Priority 1 security measures? (This justification is only for Priority 2 measures.)

Response

Priority 1 security measures are scheduled to be done in 2008 under PID 17905. Since the total estimate for Priority 1 measures is less than \$100,000, a separate justification was not prepared nor included in the project justification book.

Q 2.iii.a) Result of Operation and Prepared Testimony – Page 14. What does “do” stand for in Schedule D-2?

Response

The “do” in Schedule D-2 is short for “ditto.” For example, the “do” for Sta. 033-Tank 2 means it is on the same location as that noted for Sta. 033-Tank 1

Q 2.iii.b) Result of Operation and Prepared Testimony – Page 16. explain the aberration in the statement: “The change in customers in 2003 was an aberration related to Cal Water’s customer information system conversion.”

Response

Cal Water scoured its customer account designations in preparation for a change to the new customer information system in 2002-2003.

The aberration related to the change in customers in 2003 was related to both the Public Authority (PA) and the Private Fire Protection (PFP) customers. Work paper WP 4-B2 shows the recorded end-of-the-year services for several customer classifications including PA. There was a significant drop in PA customers in 2003 that skews the average for that year. Work paper WP 4-B3 shows the recorded end-of-the-year services for several customer classifications including PFP. There was a significant increase in PFP customers in 2003 that skews the average for that year. Therefore, for both the PA and PFP classifications, 2003 was excluded to determine the estimated incremental increases for 2007-2009.

Q 2.iii.c) Result of Operation and Prepared Testimony – Page 26. Has the Commission approved the Construction of the new Customer Service center and Operations Center? Elaborate.

Response

The Commission has approved the treatment of the new customer and operation center as an advice letter at least twice. The Commission rejected this portion of a settlement between DRA and Cal Water in D.03-09-021 due to lack of any information in the record on the need for the project. However, the Commission later approved a settlement agreement in D.05-07-022 allowing Cal Water to file an advice letter. The advice letter was based on DRA's recommendation that the project was needed and the scope was reasonable, but that the project was still in a conceptual stage. The settlement in A.06-07-017, which is adopted in the proposed decision, allows for advice letter treatment of the project in the South San Francisco District. Since both ratemaking districts make use of the combined facility, the cost would be spread proportionally to them.

Q 2.iii.d) Mid-Peninsula - Page 29. Itemize the “non-specifics” for the 2008 Capital Budget.

Response

Non-Specifics cannot be itemized for 2008 other than the general categories noted in the capital budgets. Non-specifics are based upon averages of historical expenditures over the previous ten years, inflated to 2007 dollars, for emergency or unforeseen projects that arise during any one year. This is shown for the Los Altos District in their Formal Application Workpapers, Tab T8 A/B toward the end of the tab in a sheet titled “California Water Service Company, Los Altos-Suburban District, Non-Specific Capital Budget by Category.”

Q 2.iii.e) Mid-Peninsula - Page 28. Itemize the “non-specifics” for the 2009 Capital Budget.

Response

Non-Specifics cannot be itemized for 2009 other than the general categories noted in the capital budgets. Non-specifics are based upon averages of historical expenditures over the previous ten years, inflated to 2007 dollars, for emergency or unforeseen projects that arise during any one year. This is shown for the Los Altos District in their Formal Application Workpapers, Tab T8 A/B toward the end of the tab in a sheet titled “California Water Service Company, Los Altos-Suburban District, Non-Specific Capital Budget by Category.”

Q 2.iii.f) Mid-Peninsula District – Results of Operation and Prepared Testimony: Page 33. I assume the water supply and facilities master plan referenced here is the same as that already produced, but please confirm this assumption, and produce the plan if I am incorrect.

Response

The water supply and facilities master plan referenced here was already produced in response to the 9-25-07 Ruling.

Q 2.iii.g) Page 35 - Explain the basis for your decision to cancel projects due to unexpected other high-priority projects and refer to a Commission decision allowing this practice. If you have already provided such an explanation in response to another Ruling, cite that answer here.

Response

Cal Water cancels projects that are no longer necessary. Cal Water “defers” projects to future years if a higher-priority project must be unexpectedly completed in a given year or if higher-priority project goes over budget. Cal Water’s capital project philosophy is to manage to the overall budget underlying rate recovery. Only if additional expenditures are required for important water supply, water quality, or safety needs, will Cal Water exceed its budget in a particular year.

Cal Water’s budget of capital improvements is its own. The Commission ratemaking process authorizes Cal Water a particular set of rates based on a projected revenue requirement for a future test year. Except where specifically ordered (such as in an advice letter), the Commission does not approve the company to construct an itemized list of capital projects at itemized costs. Doing so would be extremely shortsighted public policy because it would not allow the utility to respond to customer needs. Cal Water has an obligation to provide safe and reliable water service to its customers. The capital and expense needs to provide this service are constantly changing due to changes in costs, changes in regulations, and other unanticipated events. The Commission always has the opportunity to review the costs of facilities or any other aspect of the utility’s operation. Cal Water takes a risk in constructing facilities that were not presented to the Commission in its rate case budget, or in cancelling projects the Commission reviewed in its last GRC submission. The risk is that the Commission will review Cal Water’s rationale for the project changes and find that those changes were not in the public interest. In that case, the Commission would prospectively deny recovery of those costs in rates. However, Cal Water is confident that its management of capital improvements is in the public interest.

CERTIFICATE OF SERVICE

**I HEREBY CERTIFY THAT I HAVE THIS DAY SERVED COPIES OF
CALIFORNIA WATER SERVICE COMPANY'S RESPONSE TO ALJ
THOMAS' RULING OF NOVEMBER 2, 2007 IN A.07-07-001**

by using the following service:

[X] **E-Mail Service:** sending the entire document as an attachment to all known parties of record who provided electronic mail addresses.

[X] **U.S. Mail Service:** mailing by first-class mail with postage prepaid to all known parties of record who did not provide electronic mail addresses, if any.

(Please note there are no parties in this category at this time)

Executed on **November 30, 2007** at San Jose, California.

/s/ Thomas F. Smegal

Thomas F. Smegal

NOTICE

Parties should notify the Process Office, Public Utilities Commission, 505 Van Ness Avenue, Room 2000, San Francisco, CA 94102, of any change of address and/or e-mail address to insure that they continue to receive documents. You must indicate the proceeding number on the service list on which your name appears.

SERVICE LIST FOR A.07-07-001 (Last Changed November 13, 2007)

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